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REVIEW OF WHOLESALE ELECTRIC MARKET DESIGN	**§ § §**	**BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS**

TEXAS INDUSTRIAL ENERGY CONSUMERS' COMMENTS ON COMMISSION QUESTIONS

Executive Summary

I. Introduction:

TIEC prioritizes three principles in evaluating wholesale market design changes:

- In a deregulated market, generation investment risk should be borne by competitive power generation companies.
- High wholesale prices should align with periods of low supply compared to demand.
- If specific performance characteristics are needed for system reliability, resources should be procured to provide those capabilities on a competitive, technology-neutral basis.

II. Comments on Commission Questions:

1. *What specific changes, if any, should be made to the Operating Reserve Demand Curve (ORDC) to drive investment in existing and new dispatchable generation? Please consider ORDC applying only to generators who commit in the day-ahead market (DAM). Should that amount of ORDC-based dispatchability be adjusted to specific seasonal reliability needs?*

- TIEC is skeptical that manipulating the shape of the ORDC will impact investment trends; instead it will shift financial risk from generators to customers.
- The existing ORDC over-values reserves and has not changed investment trends.
- Price volatility in ERCOT is driven by the variability of intermittent generation—not the shape of the ORDC.
- Reasonable changes to the ORDC would include:
  - Seasonal curves to reflect differences in variability during different times of year.
  - Reduced VOLL of $6,000/MWh.
  - Considering paying the ORDC only to dispatchable resources.

2. *Should ERCOT require all generation resources to offer a minimum commitment in the day-ahead market as a precondition for participating in the energy market?*
   a. *If so, how should that minimum commitment be determined?*
   b. *How should that commitment be enforced?*

- TIEC understands the concern with intermittent generation to be variability relative to seasonal or annual planning assumptions, not relative to the DAM forecast. Therefore, it is not clear that a mandatory DAM would directly address issues with intermittency.
- Historically, ERCOT's wind and solar forecasts have been more accurate than individual units submitting their own forecasts. Requiring individual forecasts in the DAM could potentially increase uncertainty about real-time operations and make commitment decisions more challenging.

3. *What new ancillary service products or reliability services or changes to existing ancillary service products or reliability services should be developed or made to ensure reliability under a variety of extreme conditions? Please articulate specific standards of reliability along with any suggested AS products. How should the costs of these new ancillary services be allocated?*

- As compared to changing the ORDC or mandating DAM participation, a new "firming" ancillary service would target the perceived reliability issues with intermittent generation in a cost-effective manner.
- This "firming" service should be aimed at managing annual or seasonal "net load variability," which TIEC defines as the combined variability of intermittent generation and demand relative to annual or seasonal averages.
- Implementing a "firming service" should begin with an objective evaluation of the magnitude the actual reliability problem, which remains ill-defined and unquantified. A study of the actual magnitude of the reliability risk from ERCOT would be valuable.
- TIEC is still evaluating the appropriate allocation of a "firming" service and would benefit from additional data on causation.

4. *Is available residential demand response adequately captured by existing retail electric provider (REP) programs? Do opportunities exist for enhanced residential load response?*

- Residential demand response is challenging because residential customers are not exposed to market prices.
- REPs and LSEs must develop projects to incentivize and monetize response from their customers, and are in the best position to develop cost-effective offerings.
- TIEC is not aware of additional regulatory changes that should be made to facilitate residential demand response at this time.

5. *How can ERCOT's emergency response service program be modified to provide additional reliability benefits? What changes would need to be made to Commission rules and ERCOT market rules and systems to implement these program changes?*

- ERS is currently subject to a $50 million cap under PUC Subst. R. 25.507(b)(2).
- While ERS has played an important role during reliability events, TIEC does not believe an expansion beyond the current cost cap is the most cost-effective approach to improving reliability.

6. *How can the current market design be altered (e.g., by implementing new products) to provide tools to improve the ability to manage inertia, voltage support, or frequency?*

- TIEC has no further recommendations on this issue aside from the firming service suggested in response to Question No. 3.
- TIEC is not aware of any deficiencies in the market's ability to provide inertia, voltage support, or frequency response today and believes this is addressed through the existing protocols and ancillary service suite.